

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of a Petition by Interstate Power
and Light Company for Authority to Increase
Electric Rates in Minnesota

ISSUE DATE: May 19, 2006

DOCKET NO. E-001/GR-05-748

ORDER ACCEPTING COMPLIANCE
FILING AS MODIFIED, APPROVING
REFUND PLAN AS MODIFIED, AND
REQUIRING REFUND COMPLIANCE
FILING

PROCEDURAL HISTORY

On March 3, 2006, the Commission issued its ORDER ACCEPTING SETTLEMENT, ACCEPTING AND ADOPTING ADMINISTRATIVE LAW JUDGE'S REPORT WITH CLARIFICATIONS, AND REQUIRING COMPLIANCE FILING in this matter. As part of its Order, the Commission directed the Company to file, within 30 days of the date of the Order, a compliance filing implementing the decisions made therein, including a refund plan for returning excess monies collected under interim rates.

On April 3, 2006, Interstate submitted its compliance filing.

On April 18, 2006, the Minnesota Department of Commerce (the Department) submitted comments.

On April 28, 2006, Interstate filed reply comments and submitted an Addendum to its Refund Plan on May 4, 2006.

The Commission met to consider this matter on May 11, 2006.

FINDINGS AND CONCLUSIONS

I. COMPLIANCE REQUIREMENTS

In its March 3, 2006 Order, the Commission directed Interstate to file revised schedules of rates and charges reflecting the revenue requirement and the rate design decisions made in that Order, along with the proposed effective date, and including the following information:

- 1) a breakdown of Total Operating Revenues by type;
- 2) schedules showing all billing determinants for the retail sales (and sale for resale) of electricity;
- 3) proposed customer notices explaining the final rates, including the increases in the customer charge;
- 4) a revised base cost of energy to be put into effect with final rates, supporting schedules, and revised fuel clause tariffs;
- 5) a schedule detailing the Conservation Improvement Program (CIP) tracker balance at the beginning of interim rates, the revenues (Conservation Cost Recovery Charge and CIP Adjustment Factor) and costs recorded during the period of interim rates, and the CIP tracker balance at the time final rates become effective; and
- 6) a proposal to make refunds of interim rates to affected customers pursuant to Minn. Stat. § 216B.16, subd. 1(b), including interest calculated at the average prime rate.

II. INTERSTATE'S COMPLIANCE FILING

Interstate's filing included proposed tariff sheets for implementing final rates effective May 15, 2006, financial schedules, a proposed refund plan that if approved, would allow Interstate to start making refunds on June 30, 2006, a proposed customer notice, a sample customer bill, and a proposed schedule of the Company's CIP tracker balances. Interstate did not propose any changes to its base cost of energy (as approved in docket 05-749 at the time interim rates went into effect) and did not file a revised base cost of energy as required by paragraph 7(C) of the Commission's March 3, 2006 Order.

III. THE DEPARTMENT'S COMMENTS

The Department did not make a recommendation regarding acceptance of Interstate's compliance filing. Citing time constraints, the Department stated that it was unable to complete its evaluation of the Company's compliance filing. The Department did recommend acceptance of Interstate's proposed refund procedures.

The Department stated that Interstate's financial summaries and schedules, while not identical, are

close enough to the financial schedules in the Commission's March 3, 2006 Order that the differences are immaterial; that the Company's revenue requirement calculation reflects only the amount authorized in the Commission's March 3, 2006 Order; that the Company's customer charges are correct; that its proposed billing determinants, including the energy and demand charges, appear acceptable and reflect only the approved increases and revenue apportionment, and comport with total allowed revenues.

The Department qualified its comments by stating that it did not review Interstate's tariff language and was unable to tell from the information Interstate provided in its compliance filing how the Company calculated its Conservation Cost Recovery Factor. The Department stated that there were discrepancies between the Conservation Improvement Program (CIP) tracker account information submitted in Interstate's compliance filing and the information submitted in Interstate's CIP tracker filing.

The Department noted that Interstate did not update its base cost of energy for adjustments made to the kWh sales in the rate case but that Interstate's proposed customer notice appears to be in basic compliance with the Commission's March 3, 2006 Order.

Finally, the Department recommended approval of Interstate's proposed refund procedure with a requirement that the actual amounts (based on the inclusion of actual sales rather than the estimated amounts included in the April 3, 2006 compliance filing) to be refunded will be filed as an addendum to the Compliance Filing when available.

IV. INTERSTATE'S REPLY COMMENTS

In Reply Comments, Interstate explained the difference between the financial schedules in its settlement agreement and its compliance filing, agreed to a reconciliation of the Conservation Cost Recovery Charge (CCRC) adjustment factor used in the rate case in its conservation cost recovery adjustment filing in docket 06-515, filed a revised base cost of energy in Docket No. E-001/MR-06-654, and agreed to the Department's request for an addendum to its refund plan.

V. THE COMMISSION'S ANALYSIS AND ACTION

A. Financial Summaries and Schedules

The financial summaries and schedules in Interstate's compliance filing were not identical to the financial summaries and schedules in the November 4, 2005 settlement agreement, the January 20, 2006 Administrative Law Judge's (ALJ's) Report, or the Commission's March 3, 2006 Order. In its reply comments, Interstate reported that the differences were due to the correction of several errors that were found in the cash working capital adjustments in the settlement documents. Interstate reported that it was able to reconcile within \$287 of the revenue requirement increase, which difference is to the benefit of the ratepayers.

The Commission finds that the changes from the settlement agreement, the ALJ's Report, and the

Commission's March 3, 2006 Order have been adequately explained. Because the amounts are relatively small and Interstate does not propose to use these corrections to increase its revenue requirement or the rates it will charge, the Commission will accept the Company's filing with the explanations provided in reply comments.

B. Revenue Requirement and Authorized Gross Operating Revenue

The Commission's March 3, 2006 Order authorized an increase in revenues of \$1,247,651 to produce total gross annual jurisdictional operating revenues of \$68,548,303. The Commission finds that the Company's financial schedules (accepted in Section A) properly propose to collect only the authorized amount of increase in Interstate's revenue requirement and the authorized amount of Interstate's total gross annual jurisdictional operating revenues.

C. Revenue Apportionment and Final Billing Determinants

Interstate submitted revised schedules in its compliance filing showing the apportionment of the \$1,247,651 rate increase to the customer classes. This apportionment is consistent with the Commission's Order. In addition, the calculation of the billing determinants under Interstate's old (pre-interim) rates and new (proposed, final) rates is consistent with the Commission's Order. The Commission agrees with the Department that all of the authorized customer charges are correct and that all of the energy and demand charges appear to be correct. The very minor rounding differences throughout these schedules are not material.

D. Revised Tariff Language

1. Controlled Water Heating Tariff

The Commission finds that Interstate has correctly incorporated the decisions in this docket into the proposed tariff language. Nevertheless, the Company's proposed language describing "FROZEN" Controlled Water Heating can and should provide Interstate's customers with a clearer and more understandable explanation of what happens to this service as of May 15, 2006. The Commission will require the tariff to contain the following language:

As of May 15, 2006, this rate is frozen (i.e. closed) and will only be available to existing customers who have already elected this service at existing premises. New Customers after May 15, 2006 with Controlled Water Heating will have the option of service under other available rates.

2. Energy Supply Cost Adjustment Rider

Interstate has proposed to replace paragraph (f) of its Energy Supply Cost Adjustment rider with new language. Although Interstate stated that it views this as a simple administrative update of its tariffs, the new language appears to give Interstate blanket authority to recover the cost of any reliability related requirements mandated by North American Electric Reliability Counsel

(NERC), Mid-American Interconnected Network (MAIN), Midwest Independent Systems Operator (MISO) or any other similar organization and the Department has not reviewed this proposed change.

In these circumstances, the Commission believes it prudent to defer approval of this proposed language until the Commission completes its review of Interstate's MISO day-2 cost recovery issues in Docket No. E-001/M- 05-406.

E. CIP Tracker Account

The Commission's March 3, 2006 Order required Interstate to provide a schedule detailing the Conservation Improvement Program (CIP) tracker balance at the beginning of interim rates, the revenues (Conservation Cost Recovery Charge and CIP Adjustment Factor) and costs recorded during the period of interim rates, and the CIP tracker balance at the time final rates become effective.¹

Based on an exchange between the Company and the Department, the Commission believes this issue has been resolved for the purposes of reviewing Interstate's compliance filing in this docket. Any adjustments that are needed to reconcile Interstate's CIP tracker balance should be deferred to Docket No. E-001/M-06-515.

F. Revised Base Cost of Energy

The Commission's March 3, 2006 Order required Interstate to file a revised base cost of energy to be put into effect with final rates, supporting schedules, and revised fuel clause tariffs.² In its April 3, 2006 compliance filing, Interstate stated that it was not proposing any changes to its base cost of energy (as approved in docket 05-749 at the time interim rates went into effect) and did not propose a revised base cost of energy.

In April 18, 2006 comments, the Department stated that Interstate did not update its base cost of energy for adjustments made to the kWh sales in the rate case.

Interstate subsequently submitted a Proposed Implementation Plan for a New Base Energy Adjustment Charge which will be considered in a separate docket, E-001/MR-06-654.

¹ See Ordering Paragraph 7(D).

² See Ordering Paragraph 7(C).

G. Refund Plan

1. Actual Amounts Rather Than Estimated Amounts

The Department recommended approval of Interstate's refund with a requirement that the actual amounts (based on the inclusion of actual sales rather than the estimated amounts included in the Company's April 3, 2006 compliance filing) to be refunded will be filed as an addendum to the compliance filing when available. Interstate agreed with the Department and stated that it will base the refund principal calculation on actual sales volumes. Subsequently, Interstate submitted an Addendum to its Refund Plan.

The Commission finds that the Department's recommendation to base the refund on actual sales is appropriate and welcomes the Company's agreement to adjust its refund process accordingly. The Commission will adopt that requirement and review the refund for compliance with that point when the Company submits its refund compliance filing.

2. Threshold for Refunds to Inactive Customers

Regarding refunds to inactive customers, the Commission will reject the Company's proposal to issue refund checks to customers that have moved only if they are owed at least \$5.00. As in the 2002 Great Plains rate case, the Commission does not accept the argument that it would be administratively burdensome and not cost effective to make \$2.00 refunds.³ In that case, the Commission stated:

The Commission concludes that the benefits of attempting to refund interim rate overpayments to the average inactive customer outweigh the administrative costs of that effort and will therefore lower the refund threshold to \$2.00.⁴

Similarly in this case, the Commission will lower the refund threshold from the proposed \$5.00 to \$2.00.

3. Unreturned Refund Monies

The Commission also finds that Interstate has not adequately explained what it proposes to do with refund monies that were not returned to current ratepayers by bill credit or former ratepayers by check. The Commission finds that it is reasonable and appropriate to direct Interstate to treat the non-refundable monies as if they were potentially abandoned property (i.e. in the same way as unclaimed customer deposits) pursuant to Minn. Stat. §§ 345.34 and 345.41 through 345.48.

³ *In the Matter of a Petition by Great Plains Natural Gas Company, a Division of MDU Resources Group, Inc., for Authority to Increase Natural Gas Rates in Minnesota*, Docket No. G-004/GR-02-1682, ORDER ACCEPTING COMPLIANCE FILING WITH MODIFICATIONS AND REQUIRING FURTHER FILINGS (January 16, 2004), page 2.

⁴ *Supra* at page 2.

4. Refund Report

The Commission will require that Interstate file the customary refund report (refund compliance filing) ten days of Interstate completing its interim rate refund. The report should detail the amounts refunded in total and by customer class, interest paid in total and by customer class, and the total amount of the refund.

ORDER

1. The Commission accepts Interstate's compliance filing with an effective date of May 15, 2006 with the following modifications:
 - a. Interstate shall change the tariff language used to describe the frozen status of its Controlled Water Heating service to the following:

As of May 15, 2006, this rate is frozen (i.e. closed) and will only be available to existing customers who have already elected this service at existing premises. New Customers after May 15, 2006 with Controlled Water Heating will have the option of service under other available rates.
 - b. Commission consideration of the proposed tariff language for substitute paragraph (f) of the Energy Supply Cost Adjustment rider is deferred to Docket E-001/M-05-406;
 - c. Commission decision on Interstate's schedules of its Conservation Improvement Programs tracker account is deferred to Docket No. E-001/M-06-515; and
 - d. Commission decision regarding Interstate's proposed base cost of energy is deferred to Docket No. E-001/MR-06-654.
2. Interstate's proposed refund plan with refunds starting on June 30, 2006 is approved with the following modifications:
 - a. Interstate shall calculate the refund using actual amounts to be refunded (rather than the estimated amounts included in the April 3, 2006 compliance filing) and shall include these calculations when available in an addendum to the Compliance Filing required by Order Paragraph 4;
 - b. Interstate shall make interim rate refunds to inactive customers for amounts of \$2.00 or greater;

- c. Interstate shall handle unrefunded monies as if they were potentially abandoned property and in the same way as unclaimed customer deposits, i.e., pursuant to Minn. Stat. §§ 345.34 and 345.41 through 345.48;
- 3. Within 10 days of this Order, Interstate shall submit the Company's entire tariff with the revised rates and tariff language, and with the new effective date.
- 4. Within 10 days of completing this refund, Interstate shall submit a compliance filing that shows the actual refunds and interest paid by class including all calculations. These calculations shall include but not be limited to detailing the amounts refunded in total and by customer class, interest paid in total and by customer class, and the amount of the refund it was unable to distribute.
- 5. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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